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January 10, 2006

VIA E-FILING & HAND DELIVERY

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: D.T.E. 05-61; Milford Water Company

Dear Ms. Cottrell:

Enclosed for filing please find Milford Water Company's response to Information Request SIS 3-2 of the D.T.E. Settlement Intervention Staff.

Any questions on this matter should be directed to the undersigned.

Very truly yours,

 (NS)

Eric J. Krathwohl

Encl.

cc: Shaela McNulty Collins, Esq., Hearing Officer –Settlement Intervention Staff
John Geary, Esq., Hearing Officer – Adjudicatory Staff
Gerald M. Moody, Esq.
Henry C. Papuga, Manager
Stephen B. Alcott

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

MILFORD WATER COMPANY RESPONSES TO THE
THIRD SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
SETTLEMENT INTERVENTION STAFF
D.T.E. 05-61

Respondent: Counsel
Response Date: January 10, 2006

SIS 3-2 Refer to page 8 of Exhibit SBA-1. Please discuss Milford's ability to access capital markets for long-term debt financing.

Response: On January 6, 2006, the Company filed the testimony of Henry Papuga in support of its Petition for approval of the Company's issuance of a 10 year term note in the amount of \$1,000,000. Such testimony is attached hereto as Attachment SIS 3-2 and describes the receptivity of the long term capital market to debt issuances by the Company. Basically, the market is limited due to size and the Company found that providing some security was helpful if not required. Nonetheless, the Company did have a number of parties interested in purchasing the Company's debt securities and the Company was able to obtain the financing at a favorable rate.

MILFORD WATER COMPANY

DIRECT EXAMINATION OF HENRY C. PAPUGA

D.T.E. 05-97

D.T.E. 05 - 97

MILFORD WATER COMPANY

Direct Testimony of

HENRY C. PAPUGA

Q: Please state your name, address and position with the Milford Water Company, the applicant in the present proceeding,

A: My name is Henry C. Papuga. I am the Manager and Clerk of the Milford Water Company (the "Company"), located at 66 Dilla Street, Milford, Massachusetts,

Q: Please summarize your professional and business experience.

A: I have been affiliated with the Company since January, 1983. I have been Manager of the Company since January 1, 1984 and was elected to the Board of Directors on March 21, 1984. I was elected Clerk of the Corporation on March 16, 1986. I am involved in all aspects of the Company's operations including financial needs and planning. Prior to my employment at the Company, I was the engineer for the City of Chicopee Water Department. I am very active in a number of water industry associations and hold various offices in such groups. Specifically, I am a Life Member of the American Waterworks Association, a member of the Massachusetts Waterworks Association, National Association of Water Companies, past Chairman of the New England Chapter of NAWC, and current National Chairman of the NAWC Small Companies Committee and New England Waterworks Association.

Q: Preliminary to a review of the Company's financing plans, would you please briefly describe the Company and its operations?

1 A: The Company was incorporated March 1, 1881, and is engaged in the
2 business of the development, treatment, distribution and sale of water to approximately
3 8600 customers in the Town of Milford and to the Water Departments in the towns of
4 Hopedale and Medway and formerly Mendon, Massachusetts. Because of substantial
5 residential and industrial/commercial development within the service area and
6 compliance with the Safe Drinking Water Act, the Company has been called upon to
7 make significant additions to its water supply system, which in turn has created
8 significant capital requirements. Such additions have included, over the past several
9 years, a significant addition to the Company's Echo Lake reservoir investment, a new
10 filtration system for existing water supplies, new groundwater sources of supply,
11 treatment plant modifications, a new 2.7 million gallon water storage tank, the purchase
12 of watershed property to protect existing surface water supplies and maintain water
13 quality, and improvements to the Company's pumping facilities and distribution system.
14 Further improvements are likely to be required in connection with the Company's
15 regular capital improvements program, some of which is performed in conjunction with
16 major street resurfacing projects.

17 Q: Mr. Papuga, are you familiar with Company's plans for the issuance of
18 \$1,000,000 of term notes, which is the subject of the Company's petition in this
19 proceeding, including such matters as the timing thereof, the terms and conditions, and
20 the intended use of the proceeds therefrom?

21 A: Yes, I am.

22 Q: Will you briefly describe the main provisions of this proposed financing
23 using, if you wish, the exhibits that you have prepared for this purpose?

1 A: Yes. The exhibits to which you refer are entitled "Milford Water Company
2 Exhibits re: Issuance of \$1,000,000 Term Notes." These exhibits consist of an index page
3 and seven attachments.

4 Q: Were those attachments prepared by you or under your supervision and
5 control?

6 A: Yes, except of course for the commitment letter from Medway
7 Cooperative Bank as described below.

8 Q: Do any of the attachments describe the proposed term note issuance?

9 A: Yes, Attachment 1 sets forth a brief description of the terms and
10 conditions of the proposed issuance.

11 Q: Generally, what are the characteristics of the issuance?

12 A: The Company proposes to issue term notes in the aggregate principal
13 amount of \$1,000,000, at an interest rate of 6.75%, to mature not more than 10 years
14 from the date of issuance, and to be secured by a first mortgage on certain property of the
15 Company (the "Term Notes"). The Company proposes to privately place the Term Notes
16 pursuant to the terms of a note agreement to be executed between Medway Cooperative
17 Bank and the Company (the "Note Agreement"). A form of the Note Agreement will be
18 provided to the Department when it becomes available. Interest payments on the Term
19 Notes will be due on a monthly basis at an interest rate of 6.75% per annum and the
20 principal of the Term Notes will be amortized on a 25 year basis with the remaining
21 principal amount due at the end of the life of the Term Notes. The Company will provide
22 updates regarding other important terms, if any, as those arise during documentation of
23 the Note Agreement. The Term Notes will be designated "Milford Water Company Term

1 Notes,” or some other suitable designation.

2 Q: Are there any conditions to the issuance of the Term Notes?

3 A: The Company does not believe there are any conditions other than the
4 requirement of approval by the Department. However, the Company does point out that
5 the proposed terms of the Term Notes require the Company to provide security in the
6 form of a first mortgage on some of the Company’s property. The Company further
7 points out that the Company’s existing senior notes allow the Company to issue
8 additional debt securities that are secured by a lien, only if the Company meets certain
9 financial tests and uses the proceeds for specified purposes or the Noteholder consent.
10 The Company believes it has satisfied these requirements and has been in contact with
11 the Noteholder. The Company has been in contact with the holder of the Senior Notes
12 (the “Noteholder”) and is hopeful that such Noteholder will give the necessary consent. If
13 the Noteholder does not agree with the Company’s views or does not give such consent,
14 the basic terms of the debt may have to be revisited.

15 Q: Would you please describe the timing of the issuance, draw-down and
16 application of the proceeds of the Term Notes?

17 A: The issuance of the Term Notes is proposed to occur as soon as
18 practicable after receiving Department approval therefor. The proceeds will be used
19 primarily for the repayment of short-term borrowings incurred for recent capital projects.
20 Note that the Company has added over \$10,000,000 to plant since its last financing.

21 Q: Why did the Company choose to undertake this proposed financing at this
22 time?

23 A: The main reason at this time for seeking additional financing is to provide

1 the funds necessary to fund a significant portion of the Company's permanent additions
2 to plant, so that the Company's short-term borrowings can be used more properly to
3 finance working capital. Moreover, issuance of the Term Notes will bring the Company's
4 capital structure more closely into a balance of debt and equity which will assist the
5 Company in obtaining further financing in the future, and also will serve to provide long
6 term capital on terms favorable to the Company.

7 Q: Please explain how the Company selected the purchaser of the Term
8 Notes.

9 A: In August 2005, the Company initiated actions to enter the financial
10 marketplace to issue new long term debt to refinance existing short term debt and/or to
11 finance capital improvements. Because of the increasing interest rates and the expansion
12 of the Company's short term debt, the Company felt that it would be in the best interest
13 of the ratepayers to "term out" some of the Company's short-term financing to try to
14 obtain a fixed interest rate to finance capital improvements at this time. Nine financing
15 sources were contacted regarding purchasing such debt. Based upon the responses and
16 consideration of the interest rate environment and likely future financing requirements of
17 the Company, and after discussions of the Company's Board of Directors at the
18 September 16, 2005 meeting and in the following week, the Company determined it
19 should seek bids for a \$1,000,000 10 year note. Again the Company contacted seven
20 financing sources and five institutions provided proposals. A brief description of each of
21 these prospective financing sources and their proposals appears on Attachment 1A hereto.
22 At the Board of Directors meeting held October 19, 2005 the Directors voted to accept
23 the Medway Cooperative proposal. The Company chose Medway Cooperative largely

1 because its proposal was the most favorable in economic terms, while the other terms
2 (e.g. length of note, security, etc.) were quite similar among the various proposals. On
3 November 7, 2005, Medway Cooperative Bank provided the Company with a
4 commitment letter. See Attachment 1B.

5 Q: Would you please describe Attachment 2?

6 A: Attachment 2 consists of a balance sheet of the Company as of December
7 31, 2004 (audited) and September 30, 2005 (unaudited).

8 Q: Do you have any further exhibits that demonstrate the adequacy of the
9 Company's property to support the proposed financing?

10 A: Yes. Attachment 3, entitled "Net Plant vs. Capitalization", is a
11 comparison of the Company's property to outstanding securities after giving effect to the
12 proposed issuance (i.e., on a pro forma basis).

13 This attachment shows a net property balance of \$11,189,063 (as of September 30,
14 2005), which would be more than adequate to support the total of the Company's
15 outstanding and proposed securities of \$3,261,600 even after consideration of the
16 \$5,443,858 of contributions in aid of construction. The size of this ratio amply
17 demonstrates the sufficiency of the Company's capital structure.

18 Q: Please comment on Attachment 4, entitled "Milford Water Company
19 Statement of Capitalization at September 30, 2005, with Pro Forma Adjustments".

20 A: Attachment 4 shows the Company's debt securities and equity capital
21 outstanding on September 30, 2005, as well as on a pro forma basis after giving effect to
22 the proposed issuance of securities. This attachment also shows the date of issuance, date
23 of maturity and interest rate of each series of the Company's debt securities. On a pro

1 forma basis, the Company's capitalization will be \$8,634,989 of equity capital and
2 \$2,487,500 of debt capital, representing 78% and 22% respectively, of the Company's
3 total capitalization.

4 Q: Has the Company taken the necessary corporate votes to accomplish this
5 proposed transaction?

6 A: Yes. Those are attached as Attachment 5.

7 Q: Is it necessary for the Company to take any action with the Securities and
8 Exchange Commission in order to issue the Term Notes?

9 A: No. We have been advised by counsel that the issuance and private
10 placement of the Term Notes would be exempt from registration or qualification
11 provisions of federal securities laws as a transaction not involving any public offering of
12 securities.

13 Q: In your opinion, is the proposed issuance of Term Notes in the interest of
14 the public and the Company?

15 A: Yes.

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COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS
AND ENERGY

D.T.E. 05-61

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding in accordance with the requirements of 220 CMR 1.05(1) (Department's Rules of Practice and Procedure).

Dated at Boston, Massachusetts this 10th day of January, 2006.


Eric J. Krathwohl
Counsel

Of Counsel for
Milford Water Company